# COMPARISON OF LONG-TERM ASSETS RECORD-KEEPING IN COMPLIANCE WITH THE LEGISLATIONS OF THE EU AND SLOVAKIA

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## Abstract

The need to own assets, whether in the form of long-term tangible or intangible assets, conditions a successful operation of an accounting entity in some cases. The objective of the article is to compare the asset structure defined for public sector accounting entities to the asset structure binding for business entities in compliance with the legislation valid in SR. Further objective of the article is to compare the legislation valid in SR in terms of long-term assets to the legislation defined under IAS/IFRS International Accounting Standards (applicable for businesses) and IPSAS (applicable for public sector entities). Our effort is to point out the differences on the grounds of the given comparisons, and to propose measures aimed at enhancing the legislation on the grounds of the analysis.

**Keywords:** Long-term tangible assets, long-term intangible assets, valuation of long-term assets, IAS/IFRS, Act on Accounting, valuation of assets.

## Introduction

The assets of an accounting entity represent long-term and short-term assets from the accounting viewpoint. Assets represent tangible and other means in a certain structure. These assets are recorded in the balance sheet of the given accounting entity. Accounting entities operating in SR are obliged to record assets in line with respective laws, valid in SR. As the Slovak Republic is a member state of the European Union, it is obliged to implement the International Accounting Standards in the legislation valid in SR. That is why we compare the legislation valid in SR to the International Accounting Standards valid in the European Union in terms of assets record-keeping.

## Legal Regulation of Long-Term Assets in the Slovak Republic

The basic legal norm regulating the extent and way of record-keeping in the Slovak Republic is the Act No. 431/2002 Coll. on Accounting as amended.

From the viewpoint of time and value, we divide assets into long-term and short-term assets. Their comparison is shown in Table 1.

Table 1 – Comparison of long-term and short-term assets

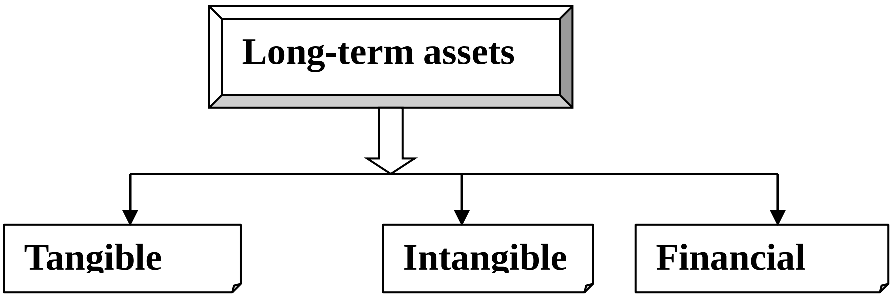
| Long-term assets | Short-term (current) assets |
|---|---|
| Usable life longer than 1 year | Usable life shorter than 1 year |
| Value higher than €1,700, respectively 2,400 | Minimal value is not specified |
| Gradual wear | Consumed at once |
| Depreciated (except Account Class 03) | Not depreciated |
| Adjusting entries are made | Adjusting entries are not made (except inventories and receivables) |
| Tangible, intangible, financial character | Tangible or financial character |

Source: authors

Under the provisions of Section 4, Clause 2 of the Act on Accounting, the Ministry of Finance of SR is competent to adopt measures for individual accounting entities whose record-keeping details it sets. The subjects of legislation analysis are accounting entities – business entities, and public sector accounting entities which keep their records using double entry book-keeping. Double entry book-keeping for businesses is regulated by means of the Measure No. 23054/2002-92 of the Ministry of Finance of SR, specifying the accounting details and framework chart of accounts for businesses keeping records using double entry book-keeping, as amended; and, in case of public sector entities, by means of the Measure No. 16786/2007-31 of the Ministry of Finance of SR, specifying the accounting details and framework chart of accounts for budgetary organisations, allowance organisations, state funds, municipalities and self-governing regions, as amended. Quoted measures of the Ministry of Finance of SR regulate the methods of long-term assets record keeping. Besides the aforementioned legal norms imposed by the Act No. 595/2003 Coll. on Income Tax as amended, legal limits have been posed on long-term tangible and long-term intangible assets.

**Long-Term Assets Structure**

Long-term assets represent assets to which an organisation has a relationship, and an economic benefit arises for the organisation from the given asset (while its ownership is not a condition). Long-term assets structure is the same in case of public sector accounting entities and in case of business entities.




Picture 1 – Long-term assets structure
Source: Štangová. N. - Mihaliková. E. – Fabian. Š. 2011: Financial Accounting in Public Sector, Implementing the International Accounting Standards, p. 45.

**Long-term tangible assets include:**

lands, structures, flats and non-residential premises, works of art, collections, articles of precious metals,

independently movable things except the aforementioned movable assets and groups of movable things having separate economic specification with usable life longer than one year and value higher than legally stipulated by the Act on Income Tax (currently EUR 1,700), accessories, e.g. additional or exchange equipment which is a part of the asset´s value and records, technical evaluation of rented tangible assets depreciated during the rental period, tangible assets with the valuation of € 1,700 or less, if its usable life is longer than one year on the grounds of the accounting entity´s decision.

Independently movable things (except movable assets: lands, structures, flats and non-residential premises, works of art, collections, articles of precious metals) and groups of movable things having separate economic specification with usable life longer than one year and value lower than legally stipulated by the Act on Income Tax (currently EUR 1,700) can be included in long-term tangible assets. If an accounting entity does not include the given articles in its assets they will be recorded as inventory.

Long-term tangible assets are recorded using respective accounts of the framework chart of accounts for budgetary and allowance organisations, particularly the accounts of the Account Group 02.

Long-term intangible assets under the Section 22, Clause 7 of the Act No. 595/2003 Coll. on Income Tax as amended (hereinafter as the Act on Income Tax) are intangible assets with the entry price higher than EUR 2,400 and usability or operational and technical functions longer than one year including long-term intangible assets recorded by a legal successor of a taxpayer cancelled without liquidation and excluded from goodwill or negative goodwill under the Act on Accounting. Intangible assets whose value is the same as the amount stipulated by the Act on Income Tax or lower, and usability is longer than one year, not included in long-term intangible assets, are recorded as a debit of the account 518 – Other Services.

Long-term intangible assets are recorded using respective accounts of the framework chart of accounts for budgetary and allowance organisations as well as businesses on the accounts of Account Group 01.

**Long-term financial assets are divided into:**

securities and shares in a daughter accounting entity, securities and shares in a company with significant influence, realizable securities and shares, debt securities held to maturity, loans provided by an accounting entity in a consolidated group,
long-term loans, works of art, collections, articles of precious metals and lands acquired for the purpose of long-term investment of available financial means.

Long-term financial assets are recorded on the accounts of Account Group 06.

Comparison of the Assets Structure According to Framework Chart of Accounts for Businesses and Budgetary Organisations

Assets structure means their inclusion and comparison in both sectors as follows:

Table 2 – Comparison of assets structure according to the framework chart of accounts

| Name of account | Business entities | Budgetary and allowance organisations, municipalities |
|---|---|---|
| 012 – Intangible results of research and development | The given account exists | The given account exists |
| 013 – Software | The given account exists | The given account exists |
| 014 – Valuable rights | The given account exists | The given account exists |
| 015 – Goodwill | The given account exists | The given account does not exist |
| 018 – Small long-term intangible assets | The given account does not exist | The given account exists |
| 019 – Other long-term intangible assets | The given account exists | The given account exists |
| 021 – Structures | The given account exists | The given account exists |
| 022 – Independently movable things and groups of movable things | The given account exists | The given account exists |
| 023 – Means of transport | The given account does not exist | The given account exists |
| 025 – Orchards and vineyards | The given account exists | The given account exists |
| 026 – Adult animals and their groups | The given account exists | The given account exists |
| 028 – Small long-term tangible assets | The given account does not exist | The given account exists |
| 029 – Other long-term tangible assets | The given account exists | The given account exists |
| 031 – Land | The given account exists | The given account exists |
| 032 – Works of art and collections | The given account exists | The given account exists |
| 033 – Articles of precious metals | The given account does not exist | The given account exists |

Source: authors

The aforementioned comparison implies that the assets structures in the chart of accounts for businesses and the chart of accounts for budgetary and allowance organisations are similar, however there are small differences. The business sector does not define the following accounts: 018 – Small long-term intangible assets, 023 – Means of transport, 028 – Small long-term tangible assets, and 033 – Articles of precious metals. In order for business entities to follow the principle of true representation of reality in accounting, they record the account 018 on the account 019 – Other long-term intangible assets by means of analytical accounts. Non-existence of the account 023 is solved similarly, i.e. an analytical account to the account 022 – Independently movable things and groups of movable things is created. The account 028 is substituted by means of the analytical account to the account 029 – Other long-term assets. The account 033 is substituted by an accounting entity, similarly to other cases, by means of the analytical account to the account 032 – Works of art and collections.

**Valuation of Long-Term Intangible, Long-Term Tangible and Financial Assets**

Assets valuation in the record keeping of an accounting entity has a substantial role. The overall value of assets is recorded in the balance sheet. The value of assets is a decisive criterion for the specification of the duty of having the financial statements verified by an auditor (Section 19, Clause 1 a) of the Act on Accounting, or also in case of a fine imposed by the Tax Office under the Section 38, Clause d) of the Act on Accounting).

Under the Act on Accounting, long-term assets are evaluated on the grounds of the way of assets acquisition either using acquisition cost, replacement cost, own expenses or actual value [16, § 25].

**Development of the International Accounting Standards for Long-Term Assets**

International Accounting Standards Committee (IASC) started its operation in 1973. Its objective was to create and develop international standards regarding ethics in auditing and accounting verification in the public sector.

IFAC established the International Public Sector Accounting Standards Board, effective from November 2004. The International Accounting Standards Board is an independent institution under IFAC with a competence to develop and issue IPSAS standards (International Private Sector Accounting Standards), support their adoption and international convergence with other standards, and issue other documents offering instructions for issuing further standards and for the solution of newly occurred problems in financial statements of a public sector organisation [3, p. 11].

IFAC established the International Accounting Standards Committee, which issues the International Financial Reporting Standards (IFRS), regulating the international accounting standards for businesses. During the operation of IASC, 41 standards denoted as IAS – International Accounting Standards were introduced, and were to contribute to the enhancement and harmonisation of the financial reporting of economic phenomena. Several of these guidelines are still valid. In 2001, the function of this committee was taken over by the International Accounting Standards Boards – IASB, currently operating in London and introducing IFRS – International Financial Reporting Standards.

The international accounting standards for businesses are denoted as IAS/IFRS, and the international accounting standards for public sector are defined under the acronym IPSAS.

Table 3 shows an overview of IAS/IFRS and IPSAS, defining the assets of accounting entities

Table 3 - The overview of IAS/IFRS and IPSAS

| IPSAS standard (applicable for public sector) | IAS/IFRS (applicable for business entities) |
|---|---|
| IPSAS 16 – Investment property | IAS 40 – Investment property |
| IPSAS 17 – Property, Plant and Equipment | IAS 16 – Property, Plant and Equipment |
| IPSAS 21 – Impairment of Noncash-generating Assets | IAS 36 – Impairment of Assets |
| IPSAS 31 – Intangible Assets | IAS 38 – Intangible Assets |

Source: authors

The given table clearly shows that the sphere of assets is defined similarly in IAS/IFRS (standards applicable for businesses) and in IPSAS (standards applicable for public sector). Even though they have differing numbers, their nature is the same. No differences were found comparing IPSAS 16 to IAS 40 and IPSAS 31 to IAS 38.

We therefore only comment on differences found comparing IPSAS and IAS as follows:

The following differences were found comparing IPSAS 17 to IAS 16:

IPSAS 17 neither requires nor prohibits keeping records on national heritage assets. An accounting entity recording national heritage assets has to comply with the conditions defined in IPSAS 17; IAS 16 does not include such definition.

IAS 16 requires that lands, structures and equipment were valuated at acquisition cost upon recording. IPSAS 17 specifies that in case assets were acquired free of charge or in the acquisition cost value, the value of assets has to be set in their actual value.

The following differences were found comparing IPSAS 21 to IAS 36:

the method of value quantification from the usage of non-cash-generating assets under IPSAS 21 is different from the method used in IAS 36, as IPSAS 21 quantifies the value from the usage of non-cash-generating assets as the present value of the existing assets, and under IAS 36, the value from the usage of cash-generating assets is quantified as the present value of cash flows from the given assets.

IPSAS 21 enables a decision to stop assets building before their completion, if there is a sign of value lowering, and it also enables repeated initiation of building, if there is a sign of the assets value increase. The given alternative in decision-making is not enabled by IAS 36.

IAS/IRFS and IPSAS implementation in the legislation of the Slovak Republic was carried out gradually. The first phase of IAS/IFRS implementation took place in 2003, when the Measure No. 23054/2002-92 of the Ministry of Finance of SR became effective, stipulating the accounting details and framework chart of accounts for business entities using double entry book-keeping. IPSAS were implemented in record keeping for public sector as of 1st January 2008, since when the Measure No. 16786/2007-31 of the Ministry of Finance of SR, stipulating the accounting details and framework chart of accounts for budgetary organisations, allowance organisations, state funds, municipalities and self-governing regions, has been effective.

On the grounds of the aforementioned information, we can state that IAS/IFRS and IPSAS implementation were carried out in the same way, however in a different period.

**Long-Term Assets Division from the Viewpoint of Their Valuation**

Long-term assets division from the viewpoint of their valuation is given in IPSAS 16 and IPSAS 17 (in case of public sector entities) and IAS 16 and IAS 38 (in case of business entities).

The International Public Sector Accounting Standards, particularly IPSAS 16 – Investment Property and IPSAS 17 – Property, Plant and Equipment similarly define requirements as defined in IAS 16 and IAS 38 – for business entities. The following part therefore provides information from IAS 16 and IAS 38.

Long-term tangible assets are dealt with by IAS 16 – Property, Plant and Equipment; and long-term intangible assets are dealt with by IAS 38 – Intangible Assets.

According to IAS 16, assets classification is as follows: lands, structures, machines, boats, aeroplanes, motor vehicles, furniture and accessories, office equipment. IAS 16 regulates the first valuation and enables subsequent revaluation of tangible assets fulfilling the definition of tangible assets and record-keeping conditions. Tangible assets record-keeping rules include the following four requirements:

specification of the amount in which an asset is to be valuated upon its first acquisition;

monitoring of changes to the first acquisition value and their depiction on respective accounts (subsequent valuation);

specification of an extent in which the value of recorded assets is to be allocated in costs in future periods;

the record of definitive asset retirement.

The first valuation of assets under IAS 16 means that property, machines and equipment are valuated at the acquisition cost upon their acquisition.

IAS 38 – Intangible assets standard represents costs not fulfilling the criteria of the intangible assets recognition, particularly: a) formation expenses, b) costs of retraining of employees, c) costs of advertising and promotion, d) costs of relocation or restructuring of a part or a whole company.

Ways of long-term intangible assets valuation under IAS 38 are: a) at acquisition costs (in case of the acquisition of an intangible asset by means of purchase), b) at own costs (in case of the acquisition of intangible assets by own activities), c) at their actual value (in case of the acquisition of intangible assets by means of change).

## Comparison of Legislation Implementation

The Slovak Republic has been a member state of the EU since 1st May 2004, and it was recommended to implement regulations valid within the EU in national legal regulations. The implementation of guidelines and standards in national legislation is a continuous process, and it proceeded as follows:

1st January 2003 – preparatory phase of the implementation – Act No. 431/2002 Coll. on Accounting, and Measure No. 23054/2002-92 of the Ministry of Finance of SR became effective, stipulating the accounting details and framework chart of accounts for businesses using double entry book-keeping.

1st January 2004 – the implementation of standards – Act No. 595/2003 Coll. on Income Tax. The legal norm defines limits valid for long-term tangible and intangible assets.

1st January 2008 – the establishment of accounting procedures by means of the Measure No. 16786/2007-3 of the Ministry of Finance of SR for budgetary organisations, allowance organisations, state funds, municipalities and self-governing regions.

Table 4 Comparison of the implementation of asset-related standards in the legislation of SR

| International Accounting Standards | Slovak Legislation |
| --- | --- |
| assets are valuated at the acquisition costs | long-term assets valuation is: at the acquisition costs, own expenses and replacement costs |
| acquisition costs include purchase price and all directly attributable costs related to putting the given asset in operation | similarly to IAS, acquisition costs include purchase price and acquisition-related costs |
| costs capitalisation will be completed, when the acquired asset gets at its destination and is put in a condition under which it is operable | costs capitalisation will be completed, when the given asset is put in operation |

Source: authors

## Conclusion and Open Questions

The subject of our examination was the comparison of assets structure defined for public sector accounting entities to the assets structure binding for business entities. The subject of the analysis was also the comparison of international accounting standards related to assets, particularly IAS/IFRS (applicable for businesses) and IPSAS (applicable for public sector).

The analysis resulted in the following conclusions:

The comparison of the charts of accounts for businesses as well as the public sector from the viewpoint of assets structure resulted in finding out that structures are more-less similar. Differences were found in the fact that the following accounts do not exist in the chart of accounts for businesses: 018 – Small long-term intangible assets, 023 – Means of transport, 028 – Small long-term tangible assets, and 033 – Articles of precious metals.

Differences were found upon the comparison of assets definitions under IAS and IPSAS.

The periods of the implementation of IPSAS and IAS international accounting standards in practice differs.

The following facts have remained open questions:

Non-existence of selected asset accounts in the chart of accounts for business entities is solved by analytical accounts in practice. Analytical accounts are not unified for accounting entities, and are not binding, i.e. each organisation creates them according to its own needs.

Therefore, differences in structure as well as assets valuation can occur. The given reason also raises a question whether the substitution of missing accounts by analytical accounts is sufficiently solved.

Differences found in assets definitions were caused by the fact that IPSAS 17 is more broadly framed, and uses the term "national heritage", as it concerns with the public sector assets, while within IAS 16, business sector does not know such definition.

Differing duration of the standards implementation can only be an advantage in case the gained experience was used.

**Consideration of the aforementioned findings implies the following possibilities:**

Creation of analytical accounts is among intra-organisational issues of an accounting entity. We therefore propose the introduction of a certain framework intra-organisational guideline, unified for all accounting entities.

IPSAS standards are used by public sector entities having a specific position in the national economy. Assets are therefore more broadly defined under IPSAS. The item "national heritage" in the assets structure has a character of undepreciated long-term assets, similarly to lands. Therefore, in case of a possibility to acquire such type of assets, we recommend business entities to include the definition of "national heritage" at least in an intra-organisational guideline.

Differing duration of standards implementation was a certain advantage in Slovakia in the given time phase, however, in spite of that, further continuous process of the harmonisation of IPSAS and IAS/IFRS is a condition of unified and compatible operation of organisations in line with the International Accounting Standards.

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